TEEKAY LNG PARTNERS, L.P.

Moderator: Peter Evensen
February 23, 2006
3:00 p.m. CT

Operator: Welcome to the Teekay LNG Partners L.P. fiscal 2005 Year End Earnings Release conference call.

During the presentation all participants will be in a listen-only mode. Afterwards, you'll be invited to participate in a question-and-answer session. At that time, if you have a question you will need to press star one. As a reminder, this conference is being recorded.

Now for opening remarks and introductions I would like to turn the conference over to Mr. Peter Evensen of Teekay Shipping Corporation. Please go ahead, sir.

Scott: Before Mr. Evensen begins and before I read the forward-looking statements I would like to direct all participants to our Web site at www.teekaylng.com, where you'll find a copy of the fourth quarter of 2005 earnings presentation. Mr. Evensen will review this presentation during today's conference call. I will now read the forward-looking statements.

Please allow me to remind you that various remarks we may make about future expectations, plans and prospects for the partnership and the shipping industry constitute forward-looking statements for purposes of the Safe Harbor provision under Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by these forward-looking statements as a result of various important factors, including those discussed in our amended registration statement on Form F-1 dated November 15, 2005, on file with the SEC.

I will now turn it over to Mr. Evensen to begin.

Peter Evensen: Thank you, Scott.

I'm very pleased to report to you our fourth quarter results. With me today from Teekay Shipping Corporation are Vince Lok, Treasurer and Brian Fortier, Corporate Controller.

Let's turn to the presentation and looking at slide three of our presenting and reviewing the fourth quarter highlights.

We're pleased to report that the results from the fourth quarter of 2005 were in line with expectations. The partnership generated $15.7 million of distributable cash flow. As expected, we declared a cash distribution of $14.7 million or 41.25 cents per unit for this quarter, representing an annualized distribution of $1.65 per unit. The cash distribution was paid on February 14th to all unit holders of record on February 1st.

Consistent with our strategy of acquiring vessels on long-term contracts, on November 23rd the partnership purchased from Teekay Shipping Corporation three modern double-hull Suezmax class crude oil tankers and related long-term fixed rate time charters for an aggregate purchase price of $180 million, which I would note is a little less than the price of one conventional LNG carrier. These vessels are similar in size to the partnership's five existing crude oil tankers and provide additional cash flow, which can be used to help fund the growth of our LNG fleet.

The tankers have an average age of two years and are chartered to a subsidiary of ConocoPhillips. Each charter contract has a remaining scheduled term of approximately 10 years. And ConocoPhillips has the option to extend the charters up to an additional six years. I will refer to these vessels as the ConocoPhillips tankers throughout the rest of this conference call.

We financed this acquisition with the $126 million in gross proceeds from our November 23rd follow on public offering of 4.6 million common units, together with borrowings under the partnership's existing $100 million revolving credit facility and cash balances. In addition, we entered into a new $137.5 million revolving credit facility in connection with the ConocoPhillips tankers that provides the partnership with significant liquidity and financial flexibility for future growth. Including this new credit facility the partnership has total liquidity of approximately $240 million.

As I indicated to you during the third quarter investor call, we have provided our financial guidance for 2006 and 2007. One of the distinguishing features of Teekay LNG is the unique combination of long-term predictable cash flows with built-in growth. As a result, we are comfortable in providing with confidence our guidance for the next two fiscal years. As you will see, distributions are budgeted to grow by approximately 27 percent over the next 18 months, as I'll explain later in this presentation.

Turning next to slide and reviewing the distributable cash flow and cash distribution for the fourth quarter, we generated $15.7 million of distributable cash flow, resulting in a coverage ratio of 1.07 times, consistent with the previous quarter.

Distributable cash flow represents net income adjusted for depreciation and amortization, non-cash interest expense, foreign exchange gains, and income tax expense and payments. Distributable cash flow also deducts estimated maintenance cap ex, which represents the dry docking expenditures and the cost of acquiring vessels, which maintain the operating capacity of our fleet.

As a result of the distributable cash flow generated, we declared and paid in February the cash distribution of $14.7 million. The amount of this distribution is equal to the minimum quarterly distribution disclosed in our IPO prospectus.

Turning next to slide five and reviewing the income statement for the fourth quarter of 2005 and comparing it to last quarter, during the fourth quarter of 2005 other than scheduled dry dockings our LNG carriers and our Suezmax tankers again achieved 100 percent utilization. During the fourth quarter we were able to benefit from one month of cash flow from the ConocoPhillips tankers and a full quarter of cash flow from the Suezmax tanker, the Toledo Spirit, which delivered in August 2005.

Voyage revenues were higher than last quarter by $5.4 million. An additional $1.5 million in revenue was received in the fourth quarter from one of our Suezmax tankers, which operates under a charter contract that includes a profit share component if the spot charter rates exceed a certain level. Spot tanker charter rates were strong in the fourth quarter, whereas in the seasonally low third quarter spot charter rates declined to a level that was just above the threshold. Spot tanker rates have remained strong so far in the first quarter of 2006.

Also, the inclusion of the Toledo Spirit for a full quarter and the acquisition of the ConocoPhillips tankers in late November increased our net voyage revenues by $3.9 million during the fourth quarter.

Vessel operating expenses were higher than last quarter by $1 million, primarily due to the acquisition of the ConocoPhillips tankers.

Depreciation and amortization was also higher than last quarter by $1.4 million, primarily due to the acquisition of the ConocoPhillips tankers and the inclusion of the Toledo Spirit for a full quarter.

General and administrative expenses were higher than last quarter by $300,000, primarily due to the additional costs associated with yearend K1 tax reporting expenses.

Net interest expense is consistent with last quarter.

Income tax expense was about $400,000 in the fourth quarter compared to an income tax recovery of $1.6 million for the third quarter. The third quarter included tax shields generated from loans between certain subsidiaries of the partnership. The fourth quarter reflects a level of tax expense which is more in line with our expectations.

We incurred an unrealized foreign currency translation gain of $5.2 million, primarily due to the effect of the change in the Euro to U.S. dollar exchange rate on our Euro-denominated date.

On a comparable basis to analyst estimates we would exclude from net income the foreign exchange gain of $5.2 million. This would have resulted in net income for this quarter of approximately $7.5 million or 23 cents per unit.

Turning now to slide six, we've presented our December 31, 2005 balance sheet and compared it with the previous quarter. Vessels and equipment have increased by $144 million from last quarter due to the acquisition of the ConocoPhillips tankers during the fourth quarter. Advances on new building contracts consists of the new building installments incurred on the three RasGas II LNG carriers. The partnership has agreed to purchase Teekay's 70 percent interest in Teekay Nakilat Corporation, which owns the three RasGas II LNG carriers currently under construction.

Under Generally Accepted Accounting Principles in the Untied States, the partnership is required to consolidate this company. Consequently, our December 31st balance sheet reflects $317 million in new building installments, $3 million in other assets and liabilities, and $320 million of debt.

For the purpose of this summarized balance sheet on the slide, we've netted restricted cash deposits of $298 million against long-term debt, as these restricted cash deposits together with interest earned on the deposits are required to be applied to pay the remaining amounts we owe under leased arrangements for two LNG carriers.

Long-term debt has increased by $19 million from last quarter, primarily due to an increase in debt of $29 million for the purchase of the ConocoPhillips tankers, which was partially offset by debt and capital lease repayments made during the quarter.

In the fourth quarter the current shareholders of Teekay Nakilat Corporation, which is Teekay Shipping Corporation with 70 percent and Qatar Gas with 30 percent, converted their $176 million of equity investments in RasGas II to interest-bearing debt. An additional $144 million of net debt was directly incurred by RasGas II, bringing the total debt in RasGas II to $320 million at the end of 2005. This debt has been used to the fund the construction costs of three LNG carriers.

As a result of this change in the financing of Teekay Nakilat and consolidation of Teekay Nakilat by the partnership, there is no longer minority interest shown on the balance sheet and, instead, the contributions made by the joint venture partners to Teekay Nakilat, along with the draw down of external loan facilities within Teekay Nakilat, are disclosed as debt related to new building vessels to be acquired.

Partner's equity has increased by $84 million from last quarter, primarily due to the net proceeds from the issuance of $4.6 million common units in November, fourth quarter earnings of $12.7

million, partially offset by our quarterly distribution. In addition, as required by U.S. accounting standards, the ConocoPhillips tankers we purchased from our parent company, Teekay Shipping Corporation, had been recorded on the partnership's statement at Teekay Shipping's historical book value.

The purchase price exceeded the historical book value by approximately $28 million. And this was accounted for as a reduction to partner's equity.

Reviewing our 2006 and 2007 notable events on slide number seven, in 2006 we look forward to having a full year of operations from the ConocoPhillips tankers, resulting in an increase to the annual cash distribution of an estimated 20 cents per unit or 12 percent to an annualized amount of $1.85 per unit.

By the first half of 2007 we will have acquired all three of the RasGas II LNG carriers. In January 2006 Teekay Shipping Corporation completed U.K. lease arrangements to finance these three RasGas II new buildings, which reduced the partnership's required equity investment by approximately $40 million, i.e. from $93 million to $53 million.

Since the partnership currently has over $240 million in total liquidity it is not necessary to issue equity to fund the acquisition of the RasGas II vessels. As a result, the annual cash distribution is expected to increase in the third quarter of 2007 by a further 25 cents per unit or 14 percent to an annualized amount of $2.10 per unit.

Turning next to slide eight and discussing the partnership's financial guidance for 2006 and 2007 in more detail, it's important to note that our guidance is based only on known and agreed upon acquisitions, that is to say the three RasGas II vessels, and does not include any additional growth we may gain over the next couple of years. Of course, this guidance also does not include the RasGas 3 and Tangu projects, which will be offered to Teekay LNG, since those projects don't start until 2008 and 2009, respectively.

With that being said, we currently expect cash flow from vessel operations or CFVO in 2006 to be $127.5 million and $174.5 million in 2007. And as discussed previously in 2006, we'll have that full year of results from the ConocoPhillips tankers. And by the first half of 2007 we will have acquired all three of the RasGas II LNG new buildings.

The other two items I'd like to highlight for 2006 and 2007 are cash interest expense and maintenance cap ex reserve. We're very well protected from rising interest rates, as nearly all of our debt is locked in at fixed rates through long-term interest rate swaps. We estimate interest expense for 2006 and 2007 to be $35.3 million and $60.9 million, respectively. Maintenance cap ex reserve is expected to increase from $21.3 million in 2006 to $28.1 million in 2007 when the RasGas II vessels come into the fleet. The cap ex reserve for these vessels is estimated using the same methodology used for our existing LNG vessels.

Distributable cash flow is expected to be $69.5 million in 2006 and $83.6 million in 2007.

Moving on, minority interest in 2007 represents our joint venture partner's 30 percent interest in the distributable cash flow of our RasGas II vessels. And taking into consideration the general partner's share of the distributable cash flow, the amount of distributable cash flow available to the limited partners is expected to increase to $68.1 million in 2006 and to $76.4 million in 2007.

As a result, the estimated annual cash distribution is expected to increase by 12 percent to $1.85 per unit commencing in the first quarter of 2006 and by a further 14 percent to $2.10 per unit by the middle of 2007, all this while maintaining a coverage ratio of 1.05 times in 2006 and 1.07 times for the second half of 2007.

Turning next to slide nine and reviewing our portfolio of projects, we've highlighted our multi-year built-in growth. Based on our acquisition of the ConocoPhillips tankers and the three RasGas II LNG carriers in 2007 and if we agree to acquire the four RasGas 3 LNG carriers in 2008 and the two Tangu LNG carriers in 2009, your partnership is in a position to grow in each of the years from 2006 through 2009. Under terms of the existing agreements, Teekay Shipping Corporation is obligated to offer the partnership the opportunity to purchase its 40 percent interest in the RasGas 3 project and its 70 percent interest in the Tangu project before delivery of the vessels.

In closing, we're executing on our plan to increase the partnership's distributable cash flow both through acquisitions and building LNG carriers against long-term contracts. Our portfolio of contracts puts us in a position to grow in each year from 2006 to 2009.

Operator, I'm now available to take questions.

Operator: Thank you.

The question-and-answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the star key followed by the digit one on your touch-tone telephone. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Also, we ask that anyone who is using a hands-free phone or speakerphone to please pick up the handset when asking your question. We will proceed in the order that you signal us and we'll take as many questions as time permits. Once again, please press star one on your touch-tone telephone to ask a question.

And our first question will come from Jon Chappell with JP Morgan.

Jon Chappell: Good afternoon, guys.

Peter, can you give us some information on industry and awards of contracts? In 2005 there was expectations as many of 70 new LNG carriers will be awarded in 2006, but we're almost two months through the year and we haven't seen any major projects yet. Do you still expect those industry forecasts of about 70 ships to be awarded this year? And kind of what's being the cause of some of the delays in your opinion?

Peter Evensen: Yes, I do. There has been some delay in the awarding of the projects, but I can tell you that we are busier than we have ever been. In particular, we're looking for growth coming out of Qatar as well as from Nigeria. And we see other projects coming as well. So, we're pre-qualified on many projects and we're bidding on those projects. But everything takes a certain amount of time and you have to coordinate the shipping with all the rest going forward.

If we look at the fleet, there's 323 ships. And that consists of 196 existing vessels and 127 which are on order. And so, the earliest new building slots for 2009 are there and already there's at least one or two vessels that have been booked for 2010. So, all the research people still point to an estimated 385 to 400 vessels are going to be required by 2010. Of course, you have to order those ahead of time.

Jon Chappell: Has the political unrest in Nigeria been part of the delays there, or is it just getting the infrastructure up and running?

Peter Evensen: No, that hasn't actually had an effect. Most of those tenders are run outside of – well, all of those tenders are run outside of Nigeria. And that hasn't reflected – all that unrest which is more inland has not resulted in any delay in the LNG projects that we've heard of.

Jon Chappell: OK. And then finally has there been any new trade lanes developing or any new end markets, particularly following the fallout of the Russia/Ukraine gas dispute earlier this year?

Peter Evensen: Well, that – since the LNG market works on a sort of longer-term timeframe, you can't immediately see any effect from that sort of thing. What I can tell you is that it's been interesting that if you look at 2005 there was in fact a little bit less LNG which was imported into the U.S., but that was because there was great demand in the Far East and Europe, where we saw – in Europe we saw the pricing for LNG on a spot basis go as high as $18.

And so, what – so, actually we went from a situation in which the spot market was over tonnage to which there was a tightened availability of spot shifts because people were sourcing much longer voyages. For example, a voyage from Egypt to Korea would take something like 38 days, whereas if it was just coming to Spain or something it might be 15 days. So, that extra ton miles, if you will, resulted in much more in sopping up the excess availability of spot deficits.

Jon Chappell: Right. And if that expanded ton mile demand continued to happen that 385 to 400 vessels needed by 2010 might prove conservative?

Peter Evensen: It might very well. But the key point is to sell the vessels. And we haven't found, for example, with the gas price changing in the U.S. from almost $14 down to $8 – that hasn't changed any of the economics of any of these projects, which rely upon gas being landed at no more than $4.

Jon Chappell: OK. Thanks a lot, Peter.

Peter Evensen: Thank you.

Operator: We'll move on to Yves Siegel with Wachovia Securities.

Yves Siegel: Yes. Thanks and good afternoon.

Peter, could you comment on the acquisition market from your perspective? Is that something that may happen? How would you handicap that if you could?

Peter Evensen: Well, the formation of Teekay LNG was of course made through the acquisition of – acquisition of four LNG carriers from Spain. So, we expect that at some point there will be a consolidation of the market. And we intend to be one of those companies that does acquisitions.

As I said before, everyone is – there's a lot of new growth in the LNG trades. And everyone is spending their time on that. I think as we find out who the winners and losers are of all of these new projects people are going to realize whether they really want to be in the business with two or three vessels or even four or five vessels. And I think we'll get our opportunity there.

I think we'll also get our opportunity when some of the oil companies decide that they want to do more of an outsourcing type of arrangement.

So, right now I would say people are more focused on the fact of can they be part of all of this big organic growth. As I think we're finding out is there's been much more of a consolidation of who gets awards between, say, ourselves, a Japanese consortium, then you're starting to see people figuring out whether they actually can be long-term in the market.

Yves Siegel: Peter, could you also comment on what your thoughts are in terms of the concentration of the fleet? How comfortable are you having X number of vessels with Qatar and how comfortable are you in terms of political risk with – I guess it wouldn't be Nigeria. I would be, I guess – well, maybe it could be Nigeria. How would you – how do you think about that going forward?

Peter Evensen: Well, that's something that we think a lot about, to tell you the truth. As we're early in our formation and with each LNG project being very important, we on purpose are not trying to take too much of any one project. And when we think of risk we think of the risk with that project, let's say should there be some – for some reason that gas is interrupted.

I think what we've actually found out is that the gas usually doesn't get interrupted, that when people talk about political risk inside of a country it actually isn't affecting the export volumes very much. Business goes on, although the political facts may look a little different. And so, the exporting that we've seen out of Nigeria has at least so far not been affected in their existing LNG operations. And we expect that to be the case.

But as we build our portfolio we want to concentrate and build a – diversify it by – you can call it geographic risk, but also diversify it by who – where the ships are going and what we call charter risk.

Yves Siegel: My last two questions, if you can comment, the – any change in the design of the vessels in terms of what you envision going forward in '09 and beyond? And with the competition being as fierce as it is, do you see any erosion in terms of the returns when you're bidding on these new projects? And I appreciate the answers. Thank you.

Peter Evensen: Yes. If we first look at the ships, there actually has been some change in the ships. In terms of as we've gotten longer hulls, in particular out of Qatar, they've been taking the lead on ordering bigger ships. So, whereas before the standard size of our existing four LNG ships out of – that move in an out of Spain are 145,000 cubic, that standard size has moved up to 165,000. And we believe that they will be moved as high as 250,000 cubic.

Just to give you some idea about that, you're talking about a ship that's normally two-and-a-half football fields long that is now going to move up and be a little bit over three, three-and-a-half – well, almost three-and-a-half football fields long. And so, these newest ones, 250,000 cubic, they're going to be taller than the Eiffel Tower by 20 meters. So, they are going to be quite massive ships going forward.

But the most important thing is that with the change in the gas price people no longer want to burn the cargo as bunkers or as fuel for the engines. So, this means that a lot of people who speculatively ordered steam turbine engines, which burn the cargo, that is not as economic as these new vessels, which we've ordered, for example, on our Tangu project, which are dual fuel diesel electric. So, you don't have to burn the cargo.

And what the charters are telling us is that when the gas price is above $6, $7, $8, not to speak of up at $14, they don't want to burn the cargo. They would rather – the cargo is too valuable to burn. So, this has, I think, vindicated our build to suit strategy that we've had going forward.

Now, the second part of your question was the returns that are available in the LNG space. And, yes, we've had to be more particular. We didn't – we bid hard on a few projects in 2005, but they were awarded, in particular one to the Japanese consortium at a level that we weren't willing to match. And so, I think it's fine. There's plenty of growth out there. And if we lose on one project there will be another project coming behind it. But we are adamant about the fact that we're going to hold to our return criteria.

Yves Siegel: Thank you.

Peter Evensen: Thank you.

Operator: And as a final reminder, it is star one to ask a question today. And we'll take our next question from Ron Londe with A.G. Edwards.

Ron Londe: Thanks.

I noticed the other day that Teekay Shipping announced two – I guess it was three long-term charters for Suezmax and Aframax shuttle tankers and for 13 year type charters for a cost of $170 million. Are those the type of assets that you might transfer into the partnership down the road?

Peter Evensen: Yes. Hi.

I think that's an interesting question. But the fact of the matter is we really put the ConocoPhillips deals in because we knew that had – that enabled us to increase the distribution meaningfully in 2006 and it gave us liquidity, which would enable us to more easily grow the LNG fleet going forward. But we named the company Teekay LNG Partners because we want to focus our growth on LNG. So, I don't think you should assume that we're going to take non-LNG assets and drop them down into Teekay LNG Partners because we think that there's enough opportunity just inside the LNG space that that's going to occupy the financing capability of Teekay LNG Partners.

Ron Londe: OK. But if push come to shove, you could put those in if …

Peter Evensen: Yes, if push comes to shove. These are very nice contracts. We've picked up three contracts to provide shuttle tankers for 13 years in the deepwater portion of Brazil. So, we think that they definitely qualify, just like we only put in three out of five vessels we have on ConocoPhillips.

But that's not the intention. I just want to repeat that and be clear. That's not the intention, is to drop down assets from Teekay. We think there's new projects as well as acquisitions that we can make inside the LNG space or even other gas trades like LPG that would fit quite well with what Teekay LNG Partners is all about, which is long-term contracts with quality end users.

Ron Londe: There's a project up in your neck of the woods in the Pacific Northwest called the Kitimat LNG terminal. Does it look like that might be one that you'd be involved with?

Peter Evensen: Yes, we're looking at it. That's in very early stages right now. And so, it isn't at the point where they're ready for solutions, but you can be assured that we're – that's a quick trip from Vancouver.

Ron Londe: OK. Thanks.

Peter Evensen: We are, yes.

Operator: And there are no further questions at this time. Mr. Evensen, I'd like to turn the conference back over to you for any closing remarks.

Peter Evensen: OK. Well, I would like to thank you for taking the time to listen to us today. We are very excited about the multiyear built-in growth story of Teekay LNG Partners. And we look forward to delivering on that and gaining new projects as the year goes forward.

Thank you for all your support.

Operator: That does conclude today's conference. Thank you for joining us.

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